

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 SP-02 AID-05 EB-07 NSC-05

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CIAE-00 COME-00 INR-07 LAB-04 NSAE-00 SIL-01 DODE-00

PA-01 USIA-06 PRS-01 SAJ-01 /078 W

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P R 111730Z JUN 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC PRIORITY 0684

INFO AMCONSUL BREMEN

AMCONSUL DUSSELDORF

AMCONSUL FRANKFURT

AMCONSUL HAMBURG

AMCONSUL MUNICH

AMCONSUL STUTTGART

USMISSION USBERLIN

USMISSION OECD PARIS

USMISSION EC BRUSSELS

AMEMBASSY LONDON

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C O N F I D E N T I A L SECTION 01 OF 02 BONN 09422

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: GDS

TAGS: EFIN, GE

SUBJECT: CURRENT ECONOMIC DEVELOPMENTS:

GERMANY -- JUNE, L975.

SUMMARY. CURRENT DATA SUGGESTS A LOWERING OF GROWTH
EXPECTATIONS FOR 1975 TO SOMEWHAT BELOW THE ZERO LEVEL.
AT THE SAME TIME THE INDICATORS OF THE EXPECTED
DOMESTICALLY-SPARKED UPTURN ARE NOT VERY CLEAR, WITH THE
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RESULTANT UNCERTAINTY AS TO ITS TIMING AND THE SUSPICION

THAT IT WILL BE MORE DISTANT THAN EARLIER ANTICIPATED. FOREIGN DEMAND IS DIVING, ESPECIALLY FROM THE IMPORTANT INDUSTRIAL COUNTRIES, AND UNEMPLOYMENT SHOWS NO SIGN OF SIGNIFICANT ALLEVIATION. END SUMMARY

1. PRODUCTION.

IN THE "CONCERTED ACTION" MEETING WITH BUSINESS AND LABOR REPRESENTATIVES ON JUNE 6, THE GOVERNMENT LOWERED ITS SIGHTS TO ZERO REAL GNP GROWTH FOR 1975 FROM ITS EARLIER (JANUARY) TARGET OF 2 PERCENT. THIS BRINGS IT MORE IN LINE WITH THE PROJECTIONS OF THE OECD AND THE INDEPENDENT GERMAN RESEARCH INSTITUTES FORECASTS OF A COUPLE OF MONTHS AGO (AND THE EMBASSY FORECAST OF LAST FEBRUARY). HOWEVER, THIS BELATED PUBLIC CATCHING UP SEEMS STILL BEHIND THE CURRENT DEVELOPMENTS. FIRST QUARTER 1975 GNP IS 3.3 PERCENT BELOW THE SAME QUARTER LAST YEAR AND 1.1 PERCENT LESS THAN IN THE LAST QUARTER 1974 (SEASONALLY ADJUSTED ANNUAL RATES). INDUSTRIAL PRODUCTION HAS NOT PICKED UP AS EXPECTED, BUT RATHER HAS CONTINUED TO DECLINE, WITH A SHARP DROP IN APRIL, THE LAST MONTH FOR WHICH DATA IS AVAILABLE. AS A RESULT, THE FIRST FOUR MONTHS OF 1975 HAVE REGISTERED A 9 PERCENT LOWER LEVEL OF PRODUCTION THAN THE SAME PERIOD LAST YEAR AND A 4 PERCENT DROP FROM THE IMMEDIATELY PRECEDING FOUR MONTH PERIOD (IN SEASONALLY ADJUSTED TERMS). FURTHERMORE, THE NEW ORDERS INDEX DOES NOT BODE PARTICULARLY WELL FOR FUTURE PRODUCTION, SINCE THIS INDICATOR IS RUNNING 8 PERCENT BELOW LAST YEAR'S LEVEL FOR THE SAME PERIOD (JANUARY-APRIL), AND 4 PERCENT BELOW THE IMMEDIATELY PRECEDING FOUR MONTH PERIOD. THIS LATTER COMPARISON IS IN NOMINAL TERMS SO THE REAL PICTURE WOULD BE EVEN MORE NEGATIVE BY SEVERAL PERCENTAGE POINTS. THE IFO INSTITUTE SURVEY OF BUSINESS FORECASTS CONTINUED PRODUCTION CUTBACKS. GIVEN THESE PERSPECTIVES AND THE HEAVY WEIGHT OF INDUSTRIAL PRODUCTION (OVER 50 PERCENT) IN THE COMPOSITION OF GERMAN GNP, AND THE LIKELIHOOD OF A NONE-TOO-SHARP RECOVERY, IT SEEMS IMPROBABLE FOR EVEN A ZERO GNP GROWTH IN 1975 TO BE RECORDED. THERE IS JUST TOO MUCH LOST GROUND TO MAKE UP, EVEN IF THE UPTURN BEGAN TOMORROW. CONFIDENTIAL

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NEGATIVE ANNUAL GROWTH OF 1-2 PERCENT WOULD SEEM A MORE REALISTIC EXPECTATION.

2. THE TURNAROUND QUESTION

IT IS QUITE PROBLEMATIC AS TO WHEN THE UPTURN WILL COME, AND GOVERNMENT SPOKESMEN HAVE BECOME MUCH MORE CAUTIOUS IN THEIR PUBLIC UTTERANCES ON THE SUBJECT.

THE DATA ON NEW ORDERS, A KEY INDICATOR OF FUTURE ECONOMIC DEVELOPMENTS, IS CONTINUALLY BEING REVISED WHICH MAKES AN ACCURATE FIX RATHER DIFFICULT. THE MOST POSITIVE SIGN CONTINUES TO BE A STRENGTHENING OF DOMESTIC DEMAND FOR CAPITAL GOODS. WHILE THE APRIL VALUE INDEX FOR THIS COMPONENT IS UP 13 PERCENT OVER LAST YEAR, THE VOLUME INDEX FOR THE FIRST QUARTER 1975 IS DOWN 3 PERCENT FROM THE SAME QUARTER LAST YEAR, BUT UP BY 10 PERCENT FROM THE PRECEDING QUARTER (SEASONALLY ADJUSTED TERMS). ELSEWHERE, EVIDENCE OF AN IMPENDING TURNAROUND IS DIFFICULT TO FIND. CONSUMER GOODS DEMAND -- THE AREA WHERE THE UPTURN WAS SUPPOSED TO

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INITIATE -- CONTINUES TO SINK IN REAL TERMS WITH NEW ORDERS 3 PERCENT DOWN IN THE FIRST QUARTER FROM THE PREVIOUS QUARTER, AND 13 PERCENT BELOW THE SAME QUARTER LAST YEAR. AN EXCEPTION IS FOUND IN NEW CAR REGISTRATIONS WHICH ARE UP SOME 20 PERCENT FROM LAST YEAR. CAPACITY UTILIZATION STOOD AT 76 PERCENT IN APRIL, HAVING BEEN ON A CONSTANT DOWNWARD TREND SINCE THE 87 PERCENT LEVEL OF THE SECOND QUARTER 1973, WITH NO SIGNS THAT A TREND REVERSAL IS IN SIGHT. INVESTMENT
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CONTINUES TO BE VERY WEAK, DESPITE THE GOVERNMENT'S BONUS INCENTIVE. THE SAVINGS RATIO IS UP TO A REMARKABLE 17 PERCENT, REFLECTING GENERALIZED UNCERTAINTY. SOME PEOPLE ARE BEGINNING TO WONDER WHETHER THE BUSINESS CYCLE UPTURN MAY NOT BE POSTPONED UNTIL NEXT YEAR, ALTHOUGH CONCRETE EVIDENCE TO SUPPORT ANY CONTENTION REGARDING THE TIMING OF A RECOVERY IS SCANT. THE GOVERNMENT HAS SAID IT DOES NOT PLAN TO ALTER ITS PRESENT POLICY COURSE, BUT WILL REEXAMINE THE POSSIBILITIES AFTER THE SUMMER RECESS.

3. UNEMPLOYMENT

IN NON-SEASONALLY ADJUSTED TERMS THE UNEMPLOYMENT RATE HAS CREPT DOWNWARD TO 4.4 PERCENT (SLIGHTLY OVER A MILLION) IN MAY AS COMPARED WITH THE HIGH POINT OF 5.2 PERCENT REACHED IN FEBRUARY. THIS APPARENT IMPROVEMENT, THOUGH, IS SOLELY DUE TO SEASONAL FACTORS RATHER THAN A BETTER ECONOMIC SITUATION. THE SEASONALLY ADJUSTED UNEMPLOYMENT RATE PORTRAYS A DIFFERENT PICTURE, WITH A STEADY WORSENING BEING OBSERVED. IN THIS CASE, THE RATE HAS GONE FROM 3.4 PERCENT IN JANUARY TO 4.6 PERCENT IN APRIL. THE GOVERNMENT HAS NOT RELEASED THE SEASONALLY ADJUSTED RATE FOR MAY, SAYING THAT IT IS AN UNRELIABLE MEASURE. MORE LIKELY IT IS AN UNFAVORABLE ONE AS WELL AND WOULD PROBABLY BE AROUND 5 PERCENT AS FOR POLITICALLY SENSITIVE REASONS WAS SUPPRESSED. GIVEN THE DISMAL PRODUCTION PERSPECTIVES OUTLINED ABOVE AND THE INHERENT LAG IN EMPLOYMENT PICKUP FOLLOWING AN ECONOMIC UPTURN, THERE SEEMS TO BE NO REASON TO EXPECT AN EARLY IMPROVEMENT IN THE EMPLOYMENT PICTURE, BUT RATHER PERHAPS A FURTHER DETERIORATION (IN SEASONALLY ADJUSTED TERMS) SHOULD BE ANTICIPATED OVER THE COMING MONTHS.

4. FOREIGN TRADE

SERIOUSLY LAGGING EXPORTS, FORMERLY THE BULWARK OF THE GERMAN ECONOMIC MIRACLE, HAVE CAUSED GREAT CONCERN. IN THE FIRST QUARTER THIS YEAR, TOTAL EXPORTS DROPPED 3.6 PERCENT FROM THE SAME QUARTER LAST YEAR. IF ONE
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DEDUCTED OUT THE INFLATIONARY FACTOR, THIS WOULD IMPLY A 12 PERCENT REAL DECLINE. THE PICTURE BECOMES STILL WORSE IF ONLY EXPORTS TO THE INDUSTRIAL COUNTRIES ARE EXAMINED, WHERE AN 11.5 PERCENT NOMINAL AND A 20 PERCENT REAL CUTBACK IN EXPORTS HAS BEEN SUSTAINED. THIS REFLECTION OF DEPRESSED DEMAND CONDITIONS IN THE INDUSTRIALIZED TRADING PARTNERS HAS BEEN SOMEWHAT OFFSET BY A 77 PERCENT INCREASE IN EXPORTS TO THE OPEC COUNTRIES IN THE FIRST QUARTER. (EXPORTS TO THE COMMUNIST COUNTRIES HAVE INCREASED AROUND 40 PERCENT, BUT STILL ACCOUNT FOR LESS THAN 4 PERCENT OF TOTAL EXPORTS.) THERE IS THE WORRY, HOWEVER, THAT THE SATURATION POINT OR PIPELINE CAPACITY LIMIT FOR THE OPEC COUNTRIES MAY SOON BE REACHED, AND THAT THIS WOULD COME BEFORE DEMAND REVIVES IN THE MORE IMPORTANT MARKETS OF THE INDUSTRIAL COUNTRIES. FOR THIS REASON THE POLICY MAKERS OF THE HEAVILY EXPORT-DEPENDENT GERMAN ECONOMY ARE ANXIOUSLY LOOKING FOR THE UPTURN IN THE U.S. AND OTHER MAJOR COUNTRIES FOR IF IT DOES NOT COME, THE RESULTS COULD HAVE A MAGNIFIED EFFECT ON GERMANY, ITS PRODUCTION AND EMPLOYMENT LEVELS.

5. INFLATION

A BRIGHT SPOT IS THAT THE COST OF LIVING IS INCREASING AT A 6 PERCENT ANNUAL RATE SO FAR THIS YEAR AS COMPARED WITH THE 7 PERCENT RATES AVERAGED OVER THE PAST TWO YEARS. THE GOVERNMENT HOPES THE 1975 AVERAGE RATE WILL BE 5.5 PERCENT. THE DEPRESSED DOMESTIC DEMAND SITUATION UNDOUBTEDLY CONTRIBUTES AS MUCH TO THIS RELATIVELY EXCELLENT RECORD AS DOES ANYTHING ELSE.
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